

Issue and Trends

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Eight Realities in the Aftermarket

The aftermarket continues to play an increasingly large role in the viability and future of motor carriers of all sizes. Fleets strive to maximize life and uptime from its current roster of trucks and trailers. With an average vehicle age of nine years, the vehicle owner – with his distribution channel for replacement parts – focuses on quality parts availability and overall life cycle costs, including appropriate parts support, counsel and expertise.

One result of this situation is an intensified focus on the total cost of a parts purchase, even the sourcing, inventory requirements, order process and shipping costs. Remember that with “low cost, too good to be true pricing” comes the issues of quality, support, resources, availability and backup required from a comprehensive parts portfolio. Before- and after-the-sale support has never been more important and even demanded by astute vehicle owners.

The seasoned senior management team of ArvinMeritor’s Aftermarket business, with over 385 years of cumulative experience, recognizes eight distinct realities that are

impacting the commercial vehicle aftermarket – including the vehicle operators, along with the truck-trailer dealers and distributors in the distribution channel.

Reality 1: Total Life Cycle Approach

When a truck operator asks about replacement parts, the simplest advice is to purchase the exact same part spec that came with the vehicle from the factory. Generally, that’s the most reliable “rule of thumb”.

As they age, trucks and trailers take on new owners and with them new vocations. A vehicle spec’d for truckload service in the Southeast may now be hauling grain over mountain passes in the Pacific Northwest. Commercial vehicles need replacement parts that are suited to how and where they work and age right now. A component that “just fits” a given make and model may not necessarily meet the customer’s need for performance, longevity, and especially value.

The recent recession has also placed extreme cost pressure on fleets of all sizes. Maintenance budgets have been slashed, forcing fleet maintenance personnel to more likely turn to conducting simply the absolute repair and maintenance practices.

One positive is that component manufacturers are providing more assistance with the vocational spec'ing of components. Field representatives have spec'ing software that can help determine which components will deliver the best performance for the way a vehicle is being used at the time of repair.

To facilitate servicing speed, local market experiments are underway via educating used truck dealerships on re-spec'ing of used vehicles from one application to another. The dealer and actually the end-user are able to assure the correct warranty coverage, attain the right spec transmission, and align better with axle ratios and potential life cycle changes of the vehicle application.

Reality 2: Managing Customers Who Run Lean

Dealers and distributors are looking for strategies to sell to cost-conscious end-users. Plus all distribution methods and channels and suppliers are being more scrutinized.

One element involves inventory—stocking parts that are low-priced but deliver good performance and value. This can include “OEM-approved” parts that are made by a third-party vendor but meet rigorous performance and manufacturing standards set by a reputable OE manufacturer here in North America. That OEM may not produce the parts, but it sure stands behind it.

The truth is that suppliers are seeking alternatives to additional brick and mortar. A trend could be established whereby third

party logistics providers and breakthrough distribution agreements are worthy of becoming a reality.

In a tough and battered economy, customers rely even more heavily on fast reliable delivery and service. Distributors, dealers, fleets and other end-users are being squeezed at every turn for margin, cost reduction, reduced working capital. The true “aftermarket survivors” (such as ArvinMeritor) must flourish in a tough market by staying true to its convictions of high parts availability and responsive delivery.

Another word of caution on buyers hearing the term: total transaction costs. Consider “container-load pricing” and what it truly entails, including an extended period of time to even receive the parts. Buying on a low-cost basis can leave end-users “holding the part” when he’s looking for timely deliveries and expert (engineering and warranty) backup when a parts fails or is short-lived.

Naturally with any replacement parts to maximize vehicles’ uptime is the advantage of offering OEM dealers and distributors quick and ready access to parts inventory at domestic warehouses. In the case of our company’s Mascot distribution system, 26 locations were established to provide customers with quick, easy, thorough inventory to provide next-day delivery. This method allows for 95 percent of the customers to be supplied in one day or less. Suppliers with dependable delivery schedules with reliable fill-rates should factor in the calculation of the total parts cost.

In addition to online ordering, many suppliers offer vendor managed inventory (VMI). VMI can automatically generate recommended orders based on mutually agreed upon objectives and sales information sent by the customer. After the

VMI system develops recommended orders, the supplier reviews them and launches the ordering feature. A purchase order is generated and transmitted from the supplier to the customer through the customer's back-end system. Still another variable of total parts cost: driving broader part number coverage, right size quantities, strong customer fill rates, and above all, improved cash flow.

And let's not forget the popular element of education and training. In an age of "buyer beware", aftermarket parts dealers and distributors can play an increasing role in helping customers understand the increasing number of parts choices that are available and what they trade off when cost-cutting or price is the top priority. Consider suppliers who invest in your industry: associations, training sessions, technical advancements both on-site and in general sessions. All are variables in again calculating total parts cost.

Here's one case where a "buyer beware" is the best advice: in some instances, fleets are pressuring suppliers to sell them "direct" assuming the fleet's costs will go down by taking "steps out of the channel". In most cases, those costs don't reduce, since distribution on a local basis is a "value add". Some suppliers might actually bid lower to get incremental business.

Reality 3: Increased Popularity of Remanufacturing

Remanufactured truck and trailer components – the product of a disassembly, cleaning, rigorous inspection and qualifying including necessary replacement, re-assembly and complete testing process -- are ideal for end-users who seek performance, service life, and warranty support without the cost associated with a new component.

Parts buying decisions shift as the vehicle gets older. The second, third and fourth owners may have different priorities than the original. For instance, as illustrated in the chart within this White Paper, truck operators move to price-point products, and eventually heavy use of remanufactured components – to assure high quality.

Remanufacturing differs from rebuilding or repairing in that the part is completely disassembled, cleaned, inspected, and any worn components are replaced. The part is then re-assembled to the same tolerances as the original. The result is an exact fit, with no modifications necessary for vehicle installation. The component is designed and tested to match the performance and fit of the original at a lower cost than a completely new unit.

The end-users gains a higher quality component with remanufacturing, a stronger warranty, and in all likelihood, fast availability of the exact component model needed.

Remanufacturing also provides the environmental benefit of extending the productive life of a part that might otherwise be scrapped. Over 24,000 tons of metal are recycled by ArvinMeritor every year, and over 37,000 tons of core are returned to the company's remanufacturing facilities every year.

Reality 4: Information Services Play Greater Role

The successes of online retailers like Amazon.com have raised expectations for anyone who uses the internet to compare products and place orders. The commercial vehicle industry is lagging many other industries in the use of advanced systems involving e-commerce, global trading, voice recognition, and other advancements.

Many suppliers, including ArvinMeritor, have online catalogs and ordering systems. In our company's case, XpresswayPlus.com enables customers to check product availability, place orders, check the status of a delivery, print invoices, view in-depth technical information, and see enlarged views of products and assemblies. It provides dealers and independent shops alike with equal access to general service and repair information for ArvinMeritor products.

Information services has also contributed to the company's ability to step up customer service with a "five-star Customer Care Center" (in the case of ArvinMeritor) that provides first-call resolution, follow-up resolution within 24 hours, order board management, and e-commerce. The company's team of over 60 customer service professionals field over 15,000 calls daily around the globe.

Technology is enabling suppliers to offer more convenient and cost-effective training. ArvinMeritor's blended learning program is an example of using technology to integrate self-guided online learning, virtual classroom webinars, and on-site instruction.

Reality 5: The Increasing Appeal of All-Makes

Ten years ago, there were incentives for fleets to consolidate their vehicle purchases with one vehicle manufacturer. Today's truck buyers serve more markets, offer more services and support more applications than ever before.

It's not practical to maintain an inventory of genuine replacement parts that spans the multiple brands of today's mixed fleet. By implementing the concept of all-makes parts, truck operators can enjoy the benefits of "one-stop shopping" while dealers and distributors can streamline inventory and

enhance the operator's loyalty regardless of a fleet's brand composition. Consider the intrinsic and pragmatic value of one phone number, one center of expertise, one website, and one trusted in-the-field representative. The all-makes difference is in the bottom line.

Reality 6: The Risk of Imitation Parts

There will always be a group of customers who buy on price alone. However, as a dealer or distributor, it's important to be wary of will-fit parts that don't deliver the consistent and reliable performance that customers expect. Dealers and distributors who sell or install poor quality parts can damage their reputation or worse face liability issues should a product failure have catastrophic consequences.

Few manufacturers worldwide are equipped to manufacture, or approve for sale, OEM-quality commercial vehicle replacement components for aftermarket use. Many manufacturers don't have the engineering expertise, the understanding of the part's original design, or the quality manufacturing processes to match the exacting performance specifications of an OE component. They cannot match the safety, reliability or durability of the original.

To keep costs attractively low, unapproved parts may use cheaper materials and lower grades of metals that can lead to component failures. If untrained labor is used, error-prone manufacturing can result. Quality standards simply do not exist at some low cost manufacturing facilities. And there is no after-sale support. "Buyer beware" applies to parts dealers and distributors as well.

To help address the issue of counterfeiting, diversion, non-compliant products and intellectual property rights, ArvinMeritor joined with other companies the MEMA Brand Protection Council. The group is

open to any member of the Automotive Aftermarket Suppliers Association (AASA), Heavy Duty Manufacturers Association (HDMA) or the Original Equipment Suppliers Association (OESA). The council meets four times a year and helps direct MEMA and the industry's collective actions on various intellectual property issues. The council also shares best practices and dialogue on this growing industry challenge.

Reality 7: Global Growth and its Economy Impact

It's become increasingly more apparent that the commercial vehicle industry is an integral member of a world economy. It is no longer confined to the North American continent, with suppliers operating facilities worldwide and end-user customers more sophisticated in their purchasing savvy. In our case, we have facilities in Brazil, Australia, South Africa, Europe, Russia, and most recently in China.

One example: to address OE customers' needs, ArvinMeritor has opened Chinese parts warehouses, including packaging capabilities, in both Wuxi and Xuzhou. With a focus on improving overall service and parts availability, our company opened two service centers very close to several mines to support mining vehicles in China. ArvinMeritor also has manufacturing and distribution locations in several European countries, South America, India, and Australia (to support Australia and the ASEAN countries). This global footprint

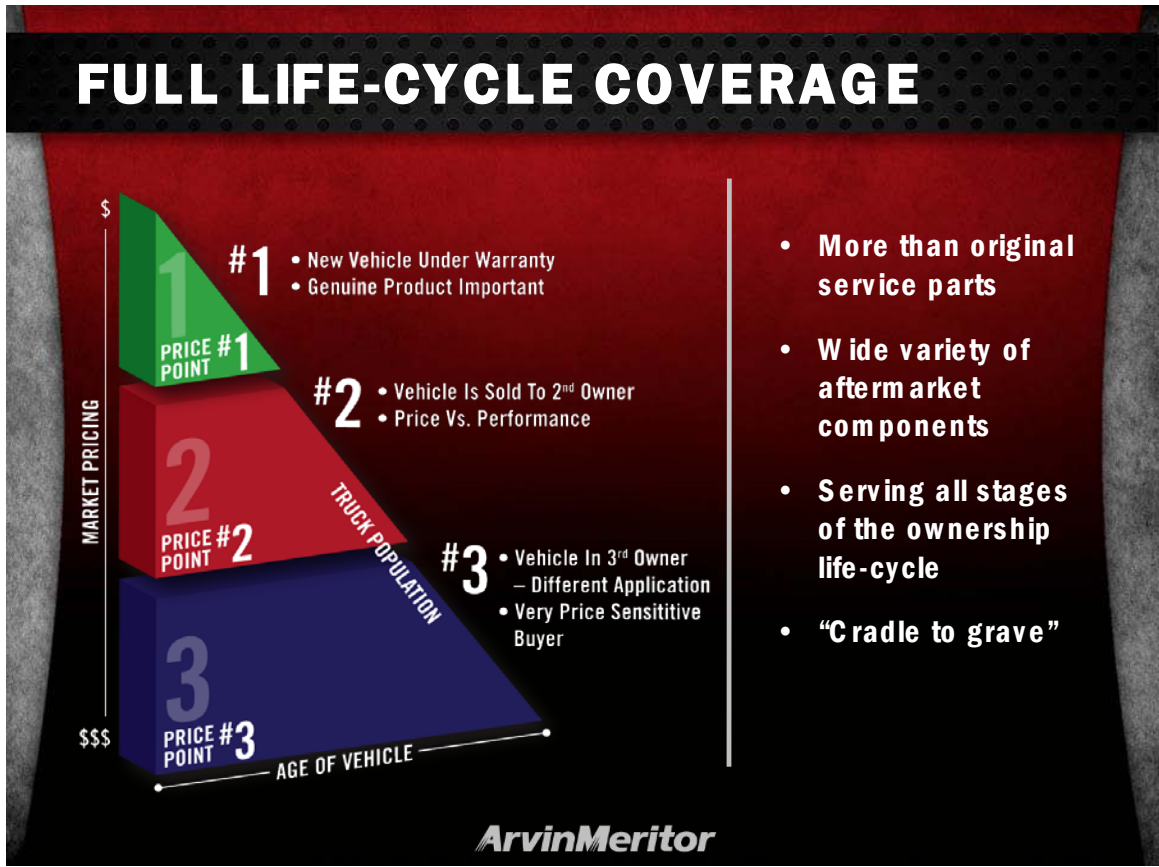
gives the company the service and support capabilities on a global scale.

As we continue to see global companies created through acquisitions, ArvinMeritor is one company that's ready with parts and services asked for by end-users. With e-commerce expansion in the marketplace, customers are insisting on consistent global service regardless of where their vehicles are operating. Operating full-service distribution centers – on five continents – sure goes a long way to helping the local market.

Reality #8: Third Party Logistics

Strong aftermarket support requires equally strong delivery systems require sophisticated support and delivery systems. A lean culture and processes in Aftermarket are the path to the most efficient, lowest cost, and most flexible provider, not just inventories. While most believe "lean" is the domain of manufacturing, "lean" will sweep the aftermarket business and the survivors will fully deploy these techniques.

The shifting consolidation where the companies who really become seek to become lean and effective, logistics providers will have the opportunity to perform these services for other suppliers who have not developed the full capabilities. The best logistics providers will sell their services those who can't afford or will not afford to become "best in class".



¹ Parts Buying Decision-making

If you'd like more information on this topic, or for copies of other Issues & Trends, contact ArvinMeritor Marketing Communications at 248/435-1933, fax to 248/435-9946, e-mail david.pennington@arvinmeritor.com, or visit our web site at: www.arvinmeritor.com

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